MULTILATERAL SURVEILLANCE[20]

EVOLUTION OF MULTILATERAL ADVICE

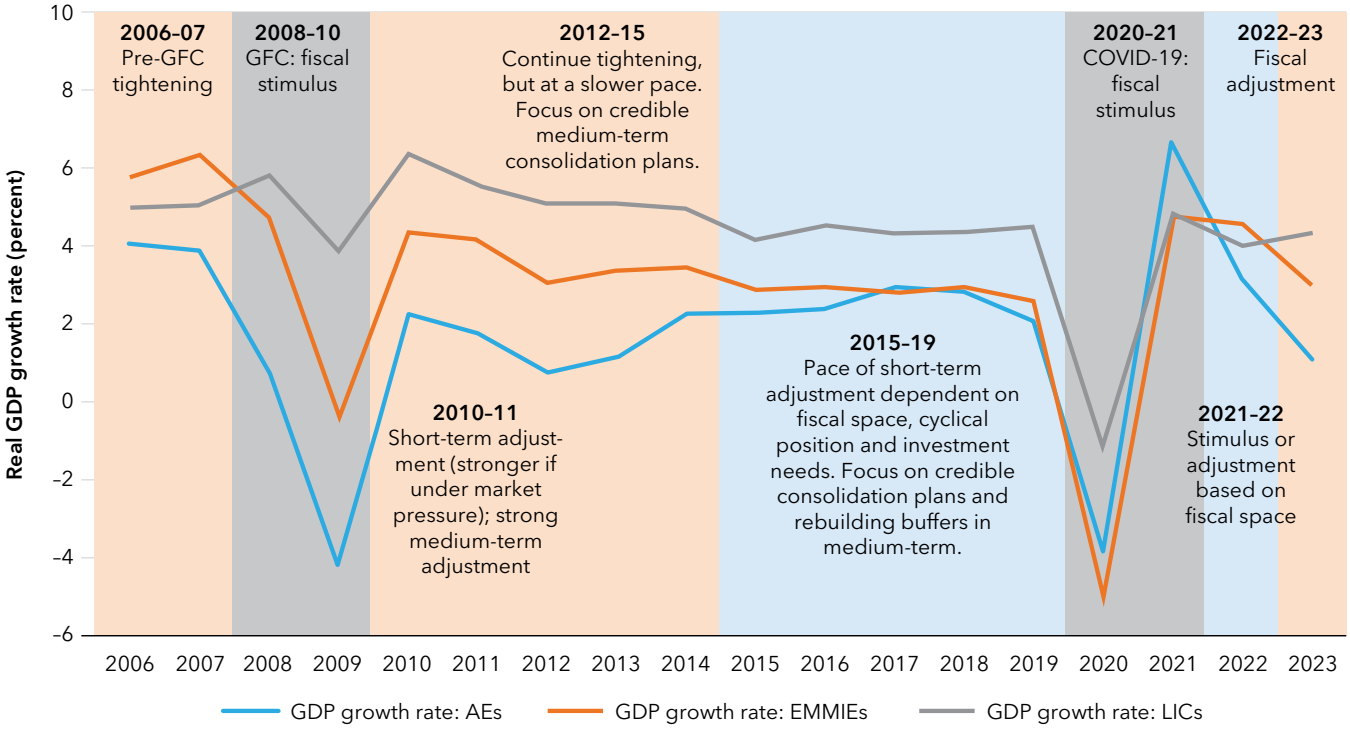
The IMF deserves credit for adapting its multilateral fiscal policy advice promptly in response to the 2008 GFC. The IMF's endorsement of fiscal stimulus in response to the GFC marked a significant departure from earlier skepticism toward discretionary fiscal policy due to concerns about market confidence. Its early and vocal advocacy for fiscal stimulus in its flagship publications acknowledged that monetary policy alone was insufficient in the face of large output gaps, the ELB on nominal interest rates, and a disrupted credit channel (Figure 4). This conjuncture was exceptional: rarely before had AEs faced such deep demand shortfalls alongside binding monetary constraints, which made fiscal activism not only desirable but indispensable. From the outset, this stance was paired with strong messaging on the importance of maintaining medium-term fiscal credibility. Staff emphasized that fiscal stimulus should be temporary, targeted, and reversible, and embedded within credible medium-term consolidation plans (Spilimbergo and others 2008). The November 2009 *Fiscal Monitor* stressed that exit strategies should not only stabilize but also reduce debt ratios over time (IMF 2009a). By anchoring short-term stimulus in credible fiscal frameworks, the Fund sought to balance the urgency of countercyclical support with fiscal sustainability concerns, an approach that would remain central to its evolving fiscal advice following the crisis.

In the wake of the euro area sovereign debt crisis, the IMF shifted toward recommending fiscal consolidation but also sought to distance itself intellectually from the broader austerity consensus. While some observers (e.g., Blyth 2013; Gamble 2014) argued that the Fund embraced the dominant narrative of the crisis as a result of excessive public debt, others (e.g., Clift 2018) contended that the IMF continued to view the crisis primarily as a crisis of insufficient demand and used its intellectual weight to temper the G-20's "growth-friendly consolidation" agenda. This more nuanced stance was reflected in the October 2010 WEO (IMF 2010), which challenged the expansionary austerity hypothesis, and in repeated public warnings against premature and synchronized fiscal tightening.[21] The Fund advocated credible medium-term commitments, for example, via parametric reforms of pension and healthcare systems, that could reassure markets and improve debt trajectories without undermining near-term demand (Blanchard and Cottarelli 2010).

[20] This section draws on the evaluation background papers by Cohen-Setton and Montiel (2025), De Lannoy and Lane (2025), and Ocampo and Zoli (2025).

[21] Prior to the GFC, the view described as "expansionary austerity" held that frontloaded fiscal consolidations—even during recessions—could bolster investor, consumer, and business confidence and thus support output (de Rato 2004; Daniel and others 2006; Tsibouris and others 2006). The post-GFC orthodoxy moved away from both the earlier belief that discretionary fiscal policy had little role in macroeconomic stabilization and the thesis that austerity itself could be expansionary, instead emphasizing the recessionary effects of consolidation (Clift 2018).

FIGURE 4. EVOLUTION OF GDP GROWTH AND IMF FISCAL POLICY ADVICE IN FLAGSHIP REPORTS



Sources: WEO; Fiscal Monitor; IEO staff calculations.
Note: Gray shading indicates that the dominant fiscal policy advice was fiscal stimulus; orange shading signifies that the dominant advice was fiscal adjustment; and blue shading indicates that the dominant advice was qualified fiscal adjustment.

The IMF increasingly supported a more active fiscal role even outside recessions to promote potential growth and the provision of public goods. In response to growing concerns over secular stagnation and persistent demand shortfalls, and repeated downside shocks, the Fund emphasized investment in infrastructure and human capital to boost both aggregate demand and potential growth. It also increasingly emphasized the distributional consequences of fiscal policy, stressing that adjustment should be "fair" to garner social and political support (Lipton 2013). Equity considerations gained prominence in Fund discourse, most notably through calls to protect the most vulnerable (IMF 2013a), reflecting both legitimacy concerns and emerging research showing that high inequality can hinder growth and macroeconomic stability. In this context, medium-term fiscal advice was not only designed to ensure debt sustainability, but also to enable infrastructure investment, support structural reforms, expand social safety nets, and address macroeconomic imbalances.

As the global economy gained momentum in 2017, the Fund emphasized the need to rebuild fiscal buffers, while continuing to advocate for supportive fiscal policies in countries where demand remained weak. The October 2017 WEO underscored the importance of aligning fiscal policy with cyclical conditions, advising countries with excess current account deficits and unsustainable fiscal positions to consolidate (IMF 2017b). By October 2018, the Fund reinforced this message in countries operating at or near full employment, urging governments to prepare for future downturns and reduce the long-term tax burden of high debt (IMF 2018d). These recommendations were broadly in line with the Organisation for Economic Co-operation and Development (OECD) advice, which warned that AEs should not waste the favorable upswing of 2017–19 by delaying necessary fiscal adjustments. However, the Fund also continued to advocate for expanding public investment in countries with weak demand and ample fiscal space, emphasizing its role in stimulating long-term growth and correcting external imbalances.

The IMF promoted a bold fiscal response to the pandemic, pivoting back to fiscal consolidation by late 2021. The Fund urged countries to "do whatever it takes to

save lives and protect livelihoods" (IMF 2020b) and "spend as much as you can, but keep the receipts,"[22] temporarily setting aside debt concerns in light of the unprecedented health and economic crisis. As the situation evolved, the Fund cautioned against prematurely withdrawing support and advocated for continued but more targeted fiscal measures during the reopening phase (IMF 2020a), and subsequently shifted its focus to structural transformation, recommending multiyear plans prioritizing public investment, stronger social safety nets, climate action, and crisis resilience, contingent on fiscal space (IMF 2021a; 2021b). In the post-pandemic environment—marked by higher long-term rates, rising debt levels, and growing structural spending pressures—Fund advice pivoted toward fiscal consolidation by late 2021. As inflation pressures rose in 2022, the Fund advocated fiscal consolidation to aid disinflation and reduce the burden on monetary policy. Since then, Fund advice has focused on a gradual but resolute fiscal consolidation and addressing growing debts in a less favorable macroeconomic environment (Adrian, Gaspar, and Gourinchas 2024), while safeguarding productive public investment (Gopinath 2024).

OUTPUT STABILIZATION AND FISCAL SUSTAINABILITY

The IMF has made important progress in acknowledging the trade-offs between fiscal consolidation and short-term growth. This is reflected for example in Chapter 2 of the October 2021 *Fiscal Monitor*, "Strengthening the Credibility of Public Finances" (IMF 2021b). By emphasizing the tension between output stabilization and fiscal sustainability, the Fund has brought greater realism to its advice. Nonetheless, interviewees pointed to remaining gaps in the ability to operationalize that trade-off in different contexts, particularly in accounting for how multipliers vary across levels of development and by types of instrument. Likewise, the advice on mitigating the impact of consolidation on vulnerable groups has at times overlooked implementation capacity constraints, the importance of sequencing measures, and the availability of data needed to assess the incidence of alternative policy measures.

The IMF's advice often, though not consistently, flagged imbalances in the policy mix and spillovers. It warned, for instance, of the risks of withdrawing fiscal support prematurely during periods of weak demand (IEO 2019; 2023) or of adopting overly expansionary fiscal policies in inflationary episodes, both of which could heighten volatility and trigger cross-border spillovers. However, its post-GFC preference for an "easy money/tight fiscal" policy mix underestimated the weakened transmission of monetary policy and the heightened effectiveness of fiscal policy in a context of widespread deleveraging in the private sector and exposed emerging market and developing economies (EMDEs) to greater capital flow volatility (IEO 2019). The Fund was similarly reserved in assessing the size of consolidation packages during the European debt crisis and the scale of fiscal packages during the pandemic and failed to anticipate the surge in inflation in 2021 (IEO 2023). It also did not fully consider how the sharp rise in interest rates needed to curb inflation could erode fiscal space in some EMMIEs and LICs. Country officials and several think tanks highlighted the lack of systematic analysis of the policy mix, the interaction between central bank and public sector, and the limited integration of fiscal policy in the Fund's Integrated Policy Framework (IPF).[23] More broadly, attention to the role of fiscal policy in addressing global imbalances in the WEO and the FM has waned in recent years, with neither of the flagships sustaining focus on this issue.[24]

Fiscal advice was quicker to respond to downside risks to global growth than to rising debt vulnerabilities. In EMMIEs, explicit warnings about debt risks came relatively late: despite facing growing debt burdens similar to those in LICs, the Fund did not issue strong cautions until 2016—later than the World Bank (2015) and roughly four years

[22] IMF Managing Director Georgieva, speaking at the opening conference of the IMF–World Bank's Spring Meetings in April 2020.

[23] The IPF was rolled out in 2020 but has been utilized principally to provide guidance on the use of capital flow measures and exchange rate intervention rather than on the monetary and fiscal policy mix. A recent exception is Basu and Gopinath (2024). By contrast, the Bank for International Settlements (BIS) has written more extensively on this subject (e.g., BIS 2022; 2023).

[24] The WEO dedicated a series of analytical chapters to global imbalances in the early 2000s (April 2005; September 2005; April 2006), but presented sporadic analytical work subsequently (April 2011, October 2014). The External Sector Report, first introduced in 2012, regularly analyzes global imbalances, but the depth of its discussion on fiscal policies to address them has varied.

after it had raised similar concerns for LICs. More recently, the global implications of new fiscal risks—stemming from the recent surge in industrial policy and defense spending, the adoption of large unfunded fiscal packages, and the potential spillovers from disorderly fiscal adjustments in systemically important countries—have received limited analysis.[25] Some authorities also viewed the Fund's recent emphasis in the WEO on sovereign debt risks in EMMIEs and LICs rather than in AEs as not being evenhanded, given high debt levels and medium-term spending pressures in AEs, though staff maintained that the focus reflected structural differences between income groups (Table 1).

The IMF missed an opportunity to use country-level DSAs and fiscal space assessments more systematically to enrich its messaging in flagship reports. Several staff and Executive Directors noted that bilateral surveillance was not sufficiently leveraged to bring specificity to its messages in flagships. Although flagships frequently urged country authorities to consider fiscal space when assessing the scope for additional spending or the need for consolidation, they rarely indicated where individual countries stood along this spectrum. Even less often did they reference the results of country-specific DSAs, despite these being a standard output of bilateral consultations. Some staff suggested that there was room to better inform and differentiate multilateral surveillance drawing from key issues arising on the ground in area departments.

TABLE 1. RISKS HIGHLIGHTED IN THE WORLD ECONOMIC OUTLOOK, 2019–24

RISK	APR 19	OCT 19	APR 20	OCT 20	APR 21	OCT 21	APR 22	OCT 22	APR 23	OCT 23	APR 24	OCT 24
Geopolitics	●	●		●	●		●	●	●	●	●	●
Climate change	●	●		●	●	●	●			●		
Pandemic			●	● ●	● ●	● ●	●	●				
Protectionism	●	●		●	●	●						●
Social unrest				●	●	●	●			●		●
Financial market vulnerability	●	●				●				●	●	●
Sovereign debt distress							●	■	■	■	●	■
Economic slowdown in China							■	■	■	■	■	■
Inflation		●					●	●	●	● ●	●	
Monetary policy						●		●	●	●	●	●
Impact of fiscal policy				● ●	●	▲					● ●	▲
Financial conditions tightening				●					●			
Cyber security	●	●				●						
TFP and technological change				●		●					●	

Note: The table categorizes the risks identified in the dedicated "Risks to the Outlook" section of the WEO reports. Circles (●) indicate that a risk was not specifically attributed to a country group or applied to both advanced economies (AEs) and emerging market and developing economies (EMDEs); triangles (▲) indicate that risk was attributed specifically to AEs; and squares (■) indicate attribution to EMDEs. Upside risks are denoted by green markers, whereas downside risks are indicated by red markers. The table includes only the key risks outlined in the sections dedicated to risks to projections. The April 2020 WEO focused exclusively on the COVID-19 pandemic and examined a multitude of risks associated with it. Impact of fiscal policy in October 2020 refers to possible extension of fiscal countermeasures (upside risk) and possible premature withdrawal of policy support (downside risk). TFP = total factor productivity.

[25] The Fund has produced some specific studies and background papers (including a series of Spillover Reports, now discontinued) that have dealt with fiscal spillovers, including from government spending shocks in major AEs (Blagrave and others 2017; Popescu and Shibata 2017; Chapter 4 in IMF 2017b), policy uncertainty (IMF 2013b; 2024a), and fiscal packages (IMF 2021a). Despite concerns about fiscal dominance (Aizenmann and others 2024; Buiter 2025), multilateral surveillance has not considered its spillovers.

More broadly, concerns continued to be raised about the asymmetry over time and the sometimes insufficiently differentiated and broad-brush nature of the Fund's multilateral advice. Authorities and staff interviewed noted, for example, that the IMF's strong calls for stimulus during the GFC and the pandemic inevitably overshadowed its calls for gradual consolidations during recovery periods and its warnings about debt vulnerabilities. External observers and staff raised concerns about such asymmetry—while appropriate for cyclical conditions—creating over time a "ratchet" effect contributing to debt build-up. They suggested that multilateral advice could have been more nuanced by acknowledging the political challenges of unwinding stimulus and tempering calls for higher spending with greater emphasis on alternatives such as reprioritization. This was especially relevant for LICs, which faced much tighter financing constraints and, even before the pandemic, were already at significant risk of debt distress (IMF 2020b).[26] More generally, there remains a concern about the sometimes insufficiently differentiated and broad-brush nature of multilateral advice (IEO 2023). Some Executive Directors and staff noted the outsized influence on country authorities and the public debate of the WEO and management communications relative to Article IV reports and Regional Economic Outlooks (REOs), which can result in misinterpretation or "cherry-picking" of messages when there are differences among them.[27]

LONG-TERM GROWTH AND THE PROVISION OF PUBLIC GOODS

The IMF has appropriately emphasized using fiscal space to boost growth potential and provide public goods. Since the GFC, the Fund has advocated high-quality public investments and structural reforms that can generate powerful synergies in an environment of low growth and low equilibrium interest rates. Well-designed investments in infrastructure, green energy, and human capital not only address long-term spending needs but also raise potential growth and, in the short run, support aggregate demand. These themes, first highlighted in flagship reports, gained prominence as the Fund adopted strategies on social spending, climate change, and gender. Reflecting these commitments, attention to such issues has become a routine part of the conjunctural discussions of fiscal policy in the WEO and the FM, often reinforced by analytical chapters that have been widely viewed as useful contributions to policy debates.[28]

However, the integration of fiscal sustainability analysis with long-term policy objectives remained partial. Fund staff have produced valuable work on the design and impact of fiscal policies aimed at supporting public investment, inclusion, and climate adaptation. However, the feedback effects of these policies on fiscal sustainability—through channels such as higher growth, stronger fiscal revenues, or permanently higher expenditures—are rarely quantified.[29] Ultimately, fiscal implications depend not only on social returns but also on the share of returns that accrue to the public sector. Interviewees noted that strengthening the coverage of structural issues in the Fund's advice would require more systematic internal analysis and guidance notes to better inform flagship publications—similar to the recent note on IMF engagement in social spending (IMF 2024b). Such work could help address key trade-offs, including how different types of public investment affect long-term growth, how poverty-related and distributional issues influence fiscal sustainability, and how to model new structural risks. Some interviewees attributed weaknesses in these areas to data gaps, while others emphasized the need for deeper analytical models and tools to support consistent, evidence-based advice on these trade-offs. Observers also argued that structural issues evolve slowly and would benefit from annual flagship coverage with deeper analysis than is possible in Article IV consultations.

[26] For example, Baffes and others (2020) struck a more cautionary note.

[27] As a complement to the WEO, the REOs provide greater differentiation on the Fund's regional advice. Their impact varies across regions, with the traction of the Sub-Saharan Africa and Middle East and Central Asia REOs (measured by the ratio of press references to REOs relative to WEO) generally higher during 2007–24 than those on other regions.

[28] In some instances, the contributions have been subject to controversy. For instance, as the Fund's multilateral advice became more vocal on climate-related issues in recent years, views differed on its emphasis on prioritizing carbon taxes relative to "green supply policies" and subsidy cuts. The forthcoming IEO evaluation on the IMF and climate change will cover IMF advice, including in the multilateral context (IEO 2024b).

[29] A recent example of staff analysis of the fiscal sustainability implications of policy choices is IMF (2023b), which examined the fiscal implications of emissions reduction strategies.